

Lieven Baele

Lieven Baele is Associate Professor of Finance at Tilburg University. His research is mostly in the field of Empirical Asset pricing and International Finance. He has published in journals such as the Review of Financial Studies or the Journal of Financial and Quantitative Analysis. In recent papers, he searches for the fundamental determinants of asset return comovements, both at low (business cycle) and ultra-high frequency, and to what extent return correlations change in times of market stress. He teaches Risk Management, International Finance, and Global Asset Allocation both in (under)graduate and executive programmes (Tias-Nimbas, Vlerick, and Solvay Brussels School of Economics and Management). He has been a consultant to both the public sector (European Central Bank, European Commission) and to private financial institutions.

Course Outline

The aim of this course is to make students familiar with state-of-the-art models of (strategic) asset allocation. In a first case, we will discuss the formation of a strategic (long-term) portfolio, and investigate the properties of alternative asset classes, such as commodities, private equity, hedge funds, and inflation-link bonds. Within the equity asset class, we will discuss the value of factor investing (smart beta strategies). In a second case, we will discuss how to optimally set up an optimal pension plan for potentially heterogeneous agents. Topics to be discussed in this case include the value of active (over passive) management, the role of management fees, as well as optimal rebalancing over the life cycle. Finally, in the more quantitative part, we will learn how quantitative techniques can help in taking optimal asset allocation decisions. We will focus mostly on the Black-Litterman model, a model that allows portfolio weights to be tilted away from equilibrium or benchmark weights in accordance with specific views (and corresponding confidence levels in them) the asset manager may have.

At the end of the course, Participants will be able to:

- Set up an appropriate strategic portfolio for different types of clients
- Discuss the pros and cons of including alternative asset classes
- Participate in the debate on active versus passive portfolio management
- Give an overview of the most important factor premia, and understand the rational/behavioral sources of these premia
- Set up a proper Black-Litterman model in Excel (or R or Python)

Course Structure

I. Portfolio management principles

- a. Common sense in investing
- b. Investment case-studies

II. Black-Litterman model

- a. Portfolio management using the Black-Litterman model

III. Practical portfolio management

- a. Generating alpha
- b. "Smart"-beta models
- c. Factor investing